PLANNING & STATISTICS
DEPARTMENT OF FINANCE

ECONOMIC TRENDS

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1982 MID-YEAR REVIEW

1. Introduction

By late August of each year there are sufficient statistics on the economy to provide a general assessment on provincial economic performance during the first half of the year. While most of the data available are subject to revision, they are considered adequate to provide a general reading of the economic situation between January and June of the year.

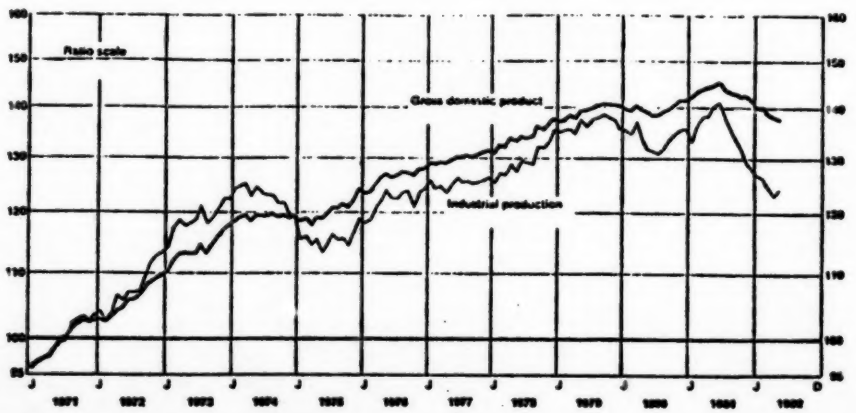
2. Summary

The general economic situation in Canada in the first half of 1982 has been one of persistent and deepening decline in aggregate levels of output, following the serious declines in the second half of 1981. This major economic recession has led to falling levels of employment, a dramatic rise in unemployment, accompanied by falling corporate profits and increasing business closures. The course of this decline since mid 1981 is apparent in Diagram 1 which shows Gross Domestic Product for Canada together with its subcomponent, the Index of Industrial Production.

Diagram 1

Comparison of Gross Domestic Product with Industrial Production, 1971-1982, Canada

(Seasonally Adjusted Indexes, 1971 = 100)

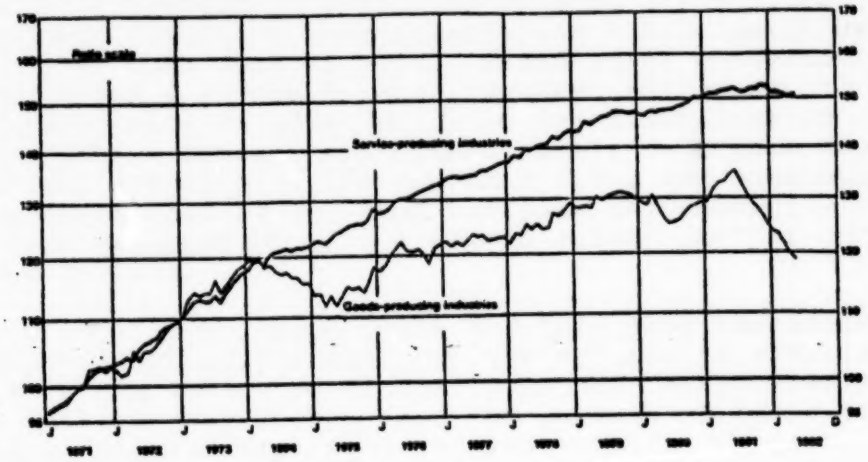


SOURCE: Statistics Canada 61-005, Gross Domestic Product by Industry.

P.O. BOX 2000, CHARLOTTETOWN, PRINCE EDWARD ISLAND, C1A 7N8

Diagram 2

Comparison of Goods-producing Industries with Service-producing Industries, 1971-1982, Canada



SOURCE: Statistics Canada 61-005, Gross Domestic Product by Industry.

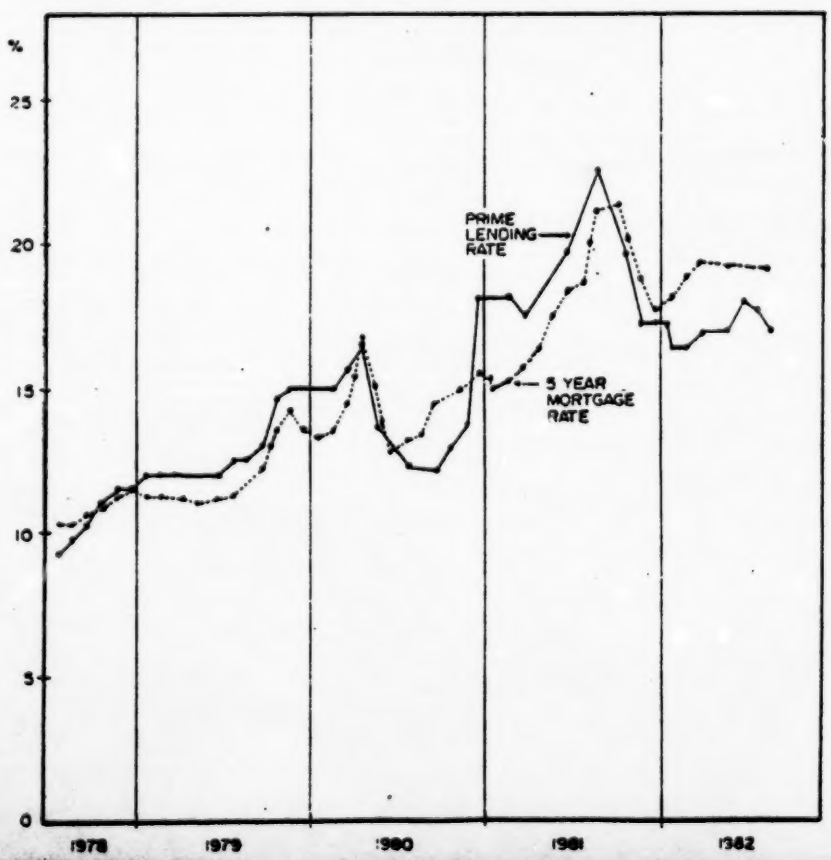
Diagram 2 displays Gross Domestic Product for Canada divided between the service-producing sectors and the goods-producing industries. One can see that the recession has been most extreme in the goods-producing sectors. The service-producing industries have also begun to turn down in 1982 resulting in an overall decline in economic activity. In general the commercial sectors of the economy are having a very difficult time although the government and noncommercial sectors show a degree of resiliency.

The latest estimates by the Conference Board of Canada indicate that no province, including Alberta, has escaped the national economic downturn. Statistics on commercial activity in Prince Edward Island all point in this direction. Where P.E.I. appears to be doing considerably better than most provinces is on the inflation front. During the first half of the year we have witnessed continuous and significant declines in the pace of consumer price increase for Charlottetown and Summerside. Consumer price inflation on P.E.I. averaged 13.5% in 1981 and by July 1982 the figure had fallen to 9.0%. This occurred despite persistently higher than the national average increases in energy costs for Prince Edward Island. By comparison, consumer price inflation for Canada in July had fallen to an annual rate of 10.8%.

Parallelling the national experience, the first half of 1982 has seen a distinct deterioration in the unemployment situation on Prince Edward Island with the unemployment rate moving up to 12.8% on a seasonally adjusted basis relative to the 11.4% average in 1981. By June of 1982, 11,121 were unemployment insurance beneficiaries on P.E.I. which was 18.5% higher than June of 1981. Residential construction activity appears as the Island's weakest sector as it continued to slow in 1982 following major declines in 1980 and 1981. Overall employment levels on Prince Edward Island fell casualty to the economic times and statistics for the first half of the year indicate approximately 1,000 less employed on Prince Edward Island in this period relative to 1981.

The underlying force which has triggered the economic recession undoubtedly stems from the efforts of administrations throughout the world, particularly in the United States, to resist inflationary forces, and the pursuit of these policies has had a dramatic impact on interest rates. It is the reaction of consumers, households generally and businesses to these interest rates which has had such dire consequences across the nation. Diagram 3 displays monthly data on the Mortgage Rate for five-year mortgages in Canada, along with

DIAGRAM 3. INTEREST RATES - CANADA, MONTHLY

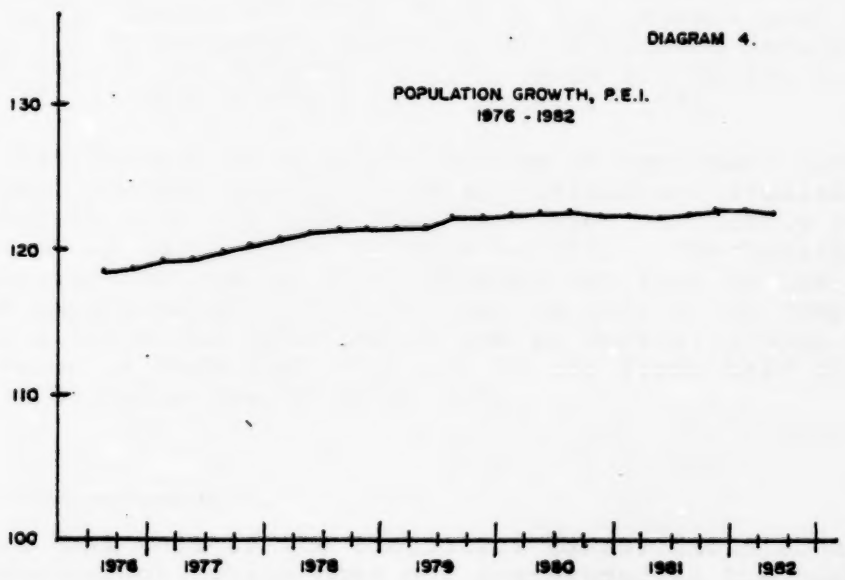


the Prime Business Lending Rate. One can see the extra-ordinary increase in rates that occurred in 1981 which softened somewhat later in the year only to stabilize at a very high level throughout the first half of 1982. Probably the most significant consequence of this situation has been the increasing numbers of mortgage holders who have been forced to renew at extremely high rates on short terms and consequently have sharply reduced their spending activity. Thus housing construction has been the major casualty of this economic recession.

3. Population and Labour Force

Preliminary estimates of the Island's population in the second quarter of 1982, based on the 1981 Census results, show 122,800 living on P.E.I. Diagram 4 displays the quarterly population estimates for Prince Edward Island from 1976 to the first half of this year and one can see that population growth has been slight since mid 1980. This distinct slowdown is primarily caused by net outmigration from P.E.I. after many years of net inmigration.

DIAGRAM 4.



STATS. CAN. REVISED INTERCENSAL ESTIMATES, PRELIMINARY, AND PRELIMINARY POST CENSAL ESTIMATES (POST 1981)

The age distribution of the population is such that there continue to be significant numbers moving into the adult population. Thus the average number of persons over 15 years of age was 92,000 in the first half of 1982 compared to 91,000 in the first half of 1981. It appears that in view of the overall poor employment picture during the first half of the year, fewer and fewer of the adult population counted themselves in the labour force. Consequently the participation rate declined to 58.4%, leaving the total labour force at 54,000, the same level that it was in 1981. Employment averaged 47,000 on a seasonally adjusted basis during the first half of 1982 compared to 48,000 in 1981. The total unemployed on average reached 7,000 during the first half of 1982*. The unemployment rate on a seasonally adjusted basis reached a peak of 15.5% in May from which point it moved down to 13.1% by July.

4. Incomes and Prices

Comprehensive statistics on personal income are not yet available for 1982 but we do have data on certain aspects of income. The largest source of personal income is labour income; that is, wages, salaries, and supplementary labour income which account for approximately 52% of total personal income on P.E.I. Statistics on total labour income for Prince Edward Island in the first four months of 1982 indicate that it was expanding at a rate of approximately 8.3% over 1981. Statistics point to a significant increase in average weekly earnings despite the overall poor employment picture. By contrast, unemployment insurance benefits, which valued $53 million in 1981, were increasing at an annual rate of 23% during the first quarter of 1982.

Net farm incomes are of course an important part of personal incomes on Prince Edward Island and available statistics indicate that they have been distinctly reduced after their exceptional upsurge in 1981. The Department of Agriculture estimates that realized net farm income will value approximately $39.2 million in 1982 which compares to $65.3 million for 1981 (which was an unusually high figure). The value of farm cash receipts in the first half of 1982 was 24.2% below the level of 1981.

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* Note that this is the Statistics Canada definition of unemployment, which does not correspond to the number receiving U.I. benefits.

The pace of consumer price inflation weakened throughout the first half of the year as can be seen in Diagram 5. Looking at the various components of consumer prices one can see that the rate of increase in energy prices fell markedly between January and July 1982. It must be remembered that it was in June and July of 1981 that energy prices took a very significant jump upwards. By mid 1982, the Canadian blended price of crude oil reached 75% of the international price of crude oil. A highly significant aspect of consumer price inflation has been the very modest movement of food prices in the first half of the year.

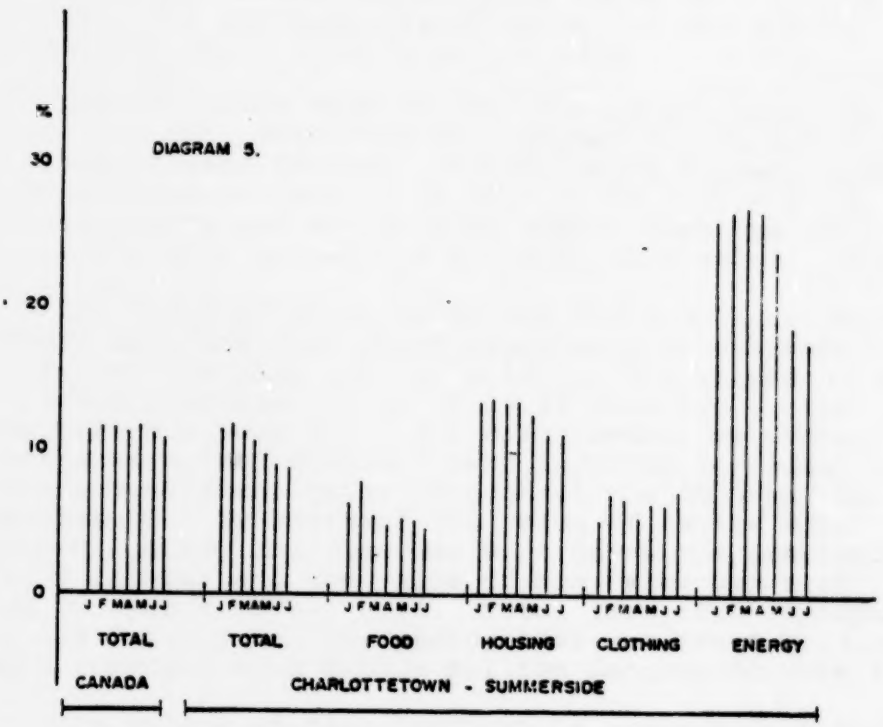

DIAGRAM 5.

ANNUAL PERCENTAGE CHANGE IN CONSUMER PRICE INDEX - 1982

In general the statistics on incomes and prices suggest that the severe pressure on costs of living which occurred in 1981 were somewhat reduced in the first half of 1982, but income growth generally has been negatively influenced by declining employment opportunities.

5. Sectoral Analysis

(a) Farming and Fishing

Potatoes form approximately one-third the value of farm cash receipts on Prince Edward Island. In the first half of 1982 we are referring to sales of potatoes from the 1981 harvest, and the statistics to date indicate a significant reduction in the value of the 1981 harvest relative to the 1980 harvest. The value of potato sales from September 1981 to June 1982 was $52.5 million which compares to $85.3 million for the same months the previous year, a serious decline, but still the second highest crop value in P.E.I.'s history. The previous record value for the potato harvest was $51.6 million set in 1975.

The estimated size of the 1981 potato crop was 16,192,000 cwt. which was the largest in the history of Prince Edward Island. The estimated acreage seeded with potatoes in 1982 is 69,000* which itself is an alltime record and so it would appear that the 1982 crop might well exceed the historic high set in 1981.

The value of dairy sales was $13.5 million between January and June 1982 which represents an increase of 10.6% over the same period in 1981. The volume of milk and cream produced was up by 14.4% relative to the same period a year ago. The dairy sector generally appears as a very stable growth industry for P.E.I., showing consistent gains throughout the 70's and to the present. By contrast the value of cattle sold between January and June was 0.2% below the previous year's figures and the value of hog sales was also down by approximately 6.3%. Total farm cash receipts for the January to June period 1982 was $86.3 million which compares with $113.9 million January to June 1981.

The volume of fish landings is estimated to have declined by 8.1% during the first half of 1982 relative to the first half of 1981. However a sharp increase in the value of lobsters, by 24.5%, raised the total value of the fish catch to $19 million compared to $16.4 million for January to June 1981. The first half of the year witnessed modest gains in the groundfish harvest whose volume increased by 4.9%.

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* This is the latest Statistics Canada estimate which many claim to be somewhat high.

(b) Construction and Manufacturing Sectors

Total new and repair construction investment intentions for Prince Edward Island for 1982 are estimated to be $155.9 million which compares with $151.5 million in 1981. This modest increase should be put in the perspective of the $176.2 million figure which was recorded in 1980. Essentially we find construction industry for P.E.I. being influenced by a modest increase in nonresidential construction activity in the face of a severe and continuing decline in housing construction. Total housing starts on P.E.I. numbered 48 in the first half of 1982 and this is the lowest level of house building that has been recorded since 1958.

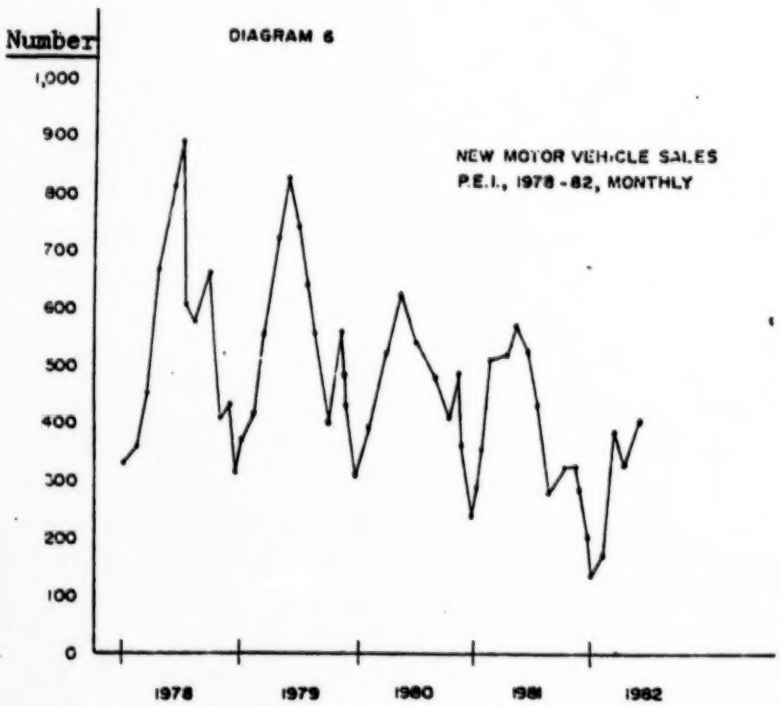
Estimates of new construction activity, excluding housing, value $92.5 million in 1982 according to Statistics Canada's mid-year review of investment spending. This compares to $84.8 million for 1981. Government investment projects and the construction of the Charlottetown convention centre make the largest contribution to construction activity for Prince Edward Island in 1982. Given the general amount of activity in construction in the first half of 1982 it is not surprising to find employment in this industry at 2,300, approximately 1,000 less than in 1981.

The manufacturing sector is dominated by the food and beverages industry which is commonly referred to as processing. Available data point to a large reduction in the value of fish product sales in the first half of 1982. Other components of food and beverages, i.e., meat products, dairy products, and vegetable products appear to have had increased sales although information is somewhat limited. The strongest component of manufacturing continues to be the dairy sector which is the largest subcomponent of Island manufacturing in terms of the value of sales. Total employment in Island manufacturing in the first half of 1982 averaged 3,300 per month which compares to 4,000 in the first half of 1981.

(c) Retail Sales, Petroleum Sales, Tourism and Food Services

The total value of retail sales in the first half of 1982 was estimated at $187.1 million which is marginally ahead of the $185 million figure for the first half of 1981. These figures are in current dollars which, given general price increases of approximately 10%, indicates significant decline in total trade activity. The general

picture is strongly influenced by sales of motor vehicles which have been very depressed in the first half of 1982, averaging 292 per month. Diagram 6 displays monthly motor vehicle sales for Prince Edward Island and one can see a general deterioration in sales figures since 1979 when they averaged 546 per month. Sales of refined petroleum products continue to decline in the first half of 1982 with the volume of sales being 6.9% below their level in the first half of 1981.



Tourist statistics for the period May 15 to July 31, 1982 were released by the Department of Tourism, Industry and Energy and show a 1.2% decline in automobile traffic, relative to the same period in 1981. Traffic from Nova Scotia suffered the greatest absolute decline while the number of vehicles from Quebec increased. Despite this slowdown in automobile traffic, the overall number of persons visiting P.E.I. are estimated to have increased to 279,874, slightly above the 279,179 for this period in 1981. Air passenger traffic was 2.3% below the level for the same period in 1981.

The general slowdown in economic activity has had a significant impact on the commercial services area. The estimated value of sales of restaurants, caterers and bars indicate that $2.2 million per month was spent January to May 1982, compared to $2.3 million per month for the same months in 1981.

Despite the apparent slowdown in economic activity in these various sectors, available employment statistics indicate sustained levels in the first seven months of 1982. The retail sector is the largest commercial employing sector on Prince Edward Island with average monthly employment during the first half of 1982 at 8,300, slightly higher than the 8,100 recorded for this period in 1981, according to the Labour Force Survey. Unfortunately statistics on the commercial services area are not available, although we know the total employment in this area is in the order of approximately 7,000 per month.

(d) Government and Noncommercial Services

Generally speaking it appears that employment in the government and noncommercial services areas, that is, public administration, schools, hospitals, university and colleges, has been very stable in the first half of the year. One finds a marked decline in the number of provincial employees on the Island in the first half of the year which was largely offset by increased employment federally. Government employment statistics show 4,092 provincial employees on P.E.I. and 2,922 federal employees on P.E.I. in the first quarter of 1982. No doubt these figures are a reflection of the gradual movement of federal employees to P.E.I. within the Department of Veterans Affairs in contrast to significant provincial lay-offs that were necessary at the end of 1981.

5. Summary and Conclusions

Looking back over the Canadian economic situation in the past few years one sees that sustained economic growth has not occurred since 1979. The first half of 1982 witnessed Canada in the throes of a severely deteriorating economic situation and real GNP is down to its level of late 1978. For Prince Edward Island the first half of 1982 has also been a difficult period and we find general declines in most aspects of commercial business activity with a particularly poor situation in residential construction. This has been

compounded somewhat by economic difficulties in the fish processing industry. Counteracting these aspects of our economy we find renewed construction activity in government projects and stability generally in the noncommercial and government service areas, which are an important aspect of the provincial economy.

At the time of writing this report it appears that some relief from the continuous burden of high interest rates is in prospect. This will ease the interest burden being carried by business and households alike and free funds for investment spending, housing and purchases of consumer goods. Unfortunately, it is still very unclear whether this will occur in a sustained way over the coming months.

September 21, 1982